

STATE OF MONTANA COMPLIANCE SUPPLEMENT FOR AUDITS OF LOCAL GOVERNMENT ENTITIES	REF: SD-3
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PROGRAM/SUBJECT: School Districts - Cash and Investments	

INFORMATION CONTACT: Montana Office of Public Instruction
Names: Rebecca Phillips Denise Ulberg
Phone Numbers: (406) 444-0783 (406) 444-1960

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COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

METHODS OF INVESTING DISTRICT MONIES

1. Compliance Requirements:

- School district trustees are responsible for the proper administration and utilization of all moneys of their district, and have a fiduciary responsibility to obtain an investment with terms most advantageous to the district.
(MCA 20-3-332)
- The trustees of the district shall invest any money of the district, whenever in the judgment of the trustees the investment would be advantageous to the district, either by directing the county treasurer to invest any money of the district or by directly investing the money of the district in eligible securities, as authorized in MCA 7-6-202 and 7-6-213, and other investments as authorized in MCA 20-9-213 and as disclosed in Compliance Requirement No. 2, below.
(MCA 20-9-213)

(Note: Student extracurricular activity funds may be held in a separate bank account under the control of the school, or by the county treasurer. **See Compliance Requirement No. 8,** below for additional information.)

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COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

METHODS OF INVESTING DISTRICT MONIES - continued

1. Compliance Requirements - continued:

- A district may invest money under the State unified investment program established in MCA Title 17, Chapter 6 (i.e., STIP) or in a unified investment program with the county treasurer, with other school districts, or with any other political subdivision if the unified investment program is limited to investments that meet the requirements listed in Compliance Requirement No. 2, below. (MCA 20-9-213(4)) **(Note: For unified investment programs with another school district or political subdivision other than the State, see the following bullet and Compliance Requirements No. 3 & 4, below.)**
- A school district that enters into a unified investment program with another school district or political subdivision other than the State shall do so under the auspices of and by complying with the provisions governing interlocal cooperative agreements authorized under MCA Title 7, Chapter 11 and educational cooperative agreements authorized under MCA Title 20, Chapter 9, Part 7. (MCA 20-9-213(4)) The following items should be included in a written agreement for such an investment program: **(Note:** These items are in addition to those required by MCA 7-11-105 (Interlocal Agreements)):
 - a. The manner in which participants will share gains, losses, interest distributions and fees;
 - b. A statement that only the types of investments allowed by MCA 20-9-213(4), 7-6-202, and 7-6-213, will be purchased;
 - c. The procedures for dissolving the pool and distributing the ending balance to participants;
 - d. Details specific to procedures necessary when more than one county treasurer is involved in funds combined in the investment pool;
 - e. The party authorized to direct the purchase and redemption of investments (i.e., a representative of the host entity, investment pool committee or board, school district official, etc.); and
 - f. A statement that all elected officials, school district employees and investment pool employees with duties related to the investment pool must be bonded. The pool participants shall determine the amount of bonding required, based on the amount of assets handled and the opportunity for defalcation. The bond may either be for an individual or may be a blanket bond.
 (ARM 10.10.625(2))
- A school district shall either contract for investment services with any company complying with the provisions of MCA Title 30, Chapter 10, or shall contract with the State Board of Investments for investment services. (MCA 20-9-213(4))

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COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

METHODS OF INVESTING DISTRICT MONIES - continued

1. Compliance Requirements - continued:

- A school district may establish an investment account(s) as described in MCA 20-9-235. (**Note: For additional compliance requirements related to investment accounts, See Compliance Requirement No. 6, below.**) (**Note:** An “investment account” does not include a countywide investment pool or an investment pool formed by a combination of schools and/or other local governments. ARM 10.10.610(2)) Before establishing a school district investment account, the trustees must enter into a written agreement with the county treasurer. The agreement must:
 - a. establish specific procedures and reporting dates to comply with the requirements of subsection MCA 20-9-235(3);
 - b. be binding upon the district and the county treasurer for a negotiated period of time;
 - c. be signed by the presiding officer of the board of trustees and the county treasurer; and
 - d. coincide with fiscal years beginning on July 1 and ending on June 30. To be effective for the ensuing school year, the agreement must be entered into no later than June 30 of the year before the investment accounts are established. (ARM 10.10.613(3))
 (MCA 20-9-235)
 (**Note:** A separate agreement must be used for each elementary, high school or K-12 district. (ARM 10.10.613(4))

Suggested Audit Procedures:

- Verify that the school district has an investment policy. Determine whether the board of trustees has formally directed the county treasurer as to the investment of district monies, whether the school district is a member of a unified investment program, or, whether the district has established an investment account or accounts. Although not required by State law, a formal written investment policy is preferred. Review the investment policy and/or other documentation to determine that the board of trustees is actively seeking investment terms that are most advantageous to the district.
- If the school district is a member of a unified investment program with another school district or political subdivision other than the State, determine that the school district has entered into a written agreement for investment services, as discussed above.
- If the school district is a member of a unified investment program with another school district or political subdivision other than the State, determine that the school district has a contract for investment services with a company licensed to do business in Montana, or has contracted with the State Board of Investments for investment services.

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COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

METHODS OF INVESTING DISTRICT MONIES - continued

1. Suggested Audit Procedures - continued:

- (**Note:** The State Auditor's Office can inform you of an investment company's registration status - (406) 444-4388.)
- If the school district has established an investment account(s), determine that the school district first entered into a written agreement with the County Treasurer, and that the agreement complied with the provisions of ARM 10.10.613.

AUTHORIZED DEPOSITS AND INVESTMENTS

2. Compliance Requirements:

- School district moneys may be invested in the following types of investments: (MCA 20-9-213(4))
 - a. eligible securities, as authorized in MCA 7-6-202;
 - 1. United States government treasury bills, notes, and bonds, and United States treasury obligations, such as state and local government series (SLGS), separate trading of registered interest and principal of securities (STRIPS), or similar United States treasury obligations.
 - 2. United States treasury receipts in a form evidencing the holder's ownership of future interest or principal payments on specific United States treasury obligations that, in the absence of payment default by the United States, are held in a special custody account by an independent trust company in a certificate or book-entry form with the federal reserve bank of New York.
 - 3. obligations of the following agencies of the United States:
 - i. Federal Home Loan Bank;
 - ii. Federal National Mortgage Association;
 - iii. Federal Home Mortgage Corporation; and
 - iv. Federal Farm Credit Bank.
 (Note: An investment in an agency of the United States must be a general obligation of the agency and have a fixed or zero-coupon rate and must not have prepayments that are based on underlying assets or collateral, including but not limited to residential or commercial mortgages, farm loans, multifamily housing loans, or student loans.)
 - 4. a United States government security money market fund if:
 - i. the fund is sold and managed by a management-type investment company or investment trust registered under the Investment Company Act of 1940 (15 U.S.C. 80a-1 through 80a-64), as may be amended;
 - ii. the fund consists only of eligible securities as described above;

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COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

AUTHORIZED DEPOSITS AND INVESTMENTS - continued

2. Compliance Requirements - continued:

- iii. the use of repurchase agreements is limited to agreements that are fully collateralized by the eligible securities, as described in this section, and the investment company or investment trust takes delivery of the collateral for any repurchase agreement, either directly or through an authorized custodian;
 - iv. the fund is listed in a national financial publication under the category of “money market mutual funds”, showing the fund’s average maturity, yield, and asset size; and
 - v. the fund’s average maturity does not exceed 397 days.
 - b. savings or time deposits in a state or national bank, building or loan association, savings and loan association, or credit union insured by the FDIC or NCUA located in the state;
 - c. repurchase agreements meeting the criteria in MCA 7-6-213;
 - d. the State Short-Term Investment Pool (STIP), as provided in MCA 17-6-204; and
 - e. in a unified investment program with the county treasurer, with other school districts, or with any other political subdivision, as long as the investment program is limited to investments that meet the requirements of MCA 20-9-213(4) (a. through d. above).
- (MCA 20-9-213(4))
- Investments may not have a maturity date exceeding 5 years, except:
 - a. when the investment is used in an escrow account to refund an outstanding bond issue in advance.
 - b. that an investment of the assets of a local government group self-insurance program established pursuant to MCA 2-9-211 or 39-71-2103 may not have a maturity date exceeding 10 years, and the average maturity of all those authorized investments may not exceed 6 years.
- (MCA 7-6-202(4) & (5))
- Revisions made to MCA 7-6-202 by the 1995 Legislature were effective upon passage and approval, which was on April 13, 1995. An applicability clause in the legislation specified that these revisions do not apply to and do not require the sale of securities that were legal investments before this effective date. However, upon liquidation of such investments, the proceeds must be invested pursuant to the revised MCA 7-6-202. This applicability clause has been interpreted to mean that mutual fund dividends may not be reinvested after the effective date unless the mutual fund is a United States government security money market fund meeting the criteria specified in MCA 7-6-202(3), as revised.

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COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

AUTHORIZED DEPOSITS AND INVESTMENTS - continued

2. Suggested Audit Procedure:

- Review investments, including both investments held at year-end and during the fiscal year by the district or by any investment program, pool, or account in which it may participate, to determine that the types of investments are authorized by state law for school districts.

UNIFIED INVESTMENT PROGRAM WITH OTHER LOCAL GOVERNMENTS

(Note: Compliance Requirements No. 3 & No. 4, below, are applicable to only those school districts participating in a unified investment program with another school district or political subdivision other than the State. These requirements do not apply to the State unified investment program (i.e., STIP) or in a unified investment program with the county treasurer (i.e., a countywide investment pool.)) (MCA 20-9-213(4))

3. Compliance Requirement:

- Before participating in a unified investment program (referred to here as an “investment pool”), a school district must have written documentation that the investment firm or entity contracted to administer the pool:
 - a. complies with MCA 20-9-204, Article VIII, Section 13, Montana Constitution; and is qualified and competent to provide investment services to the school districts;
 - b. is either the State Board of Investments or an investment firm that is either registered with or has filed notice with the State Auditor under the provisions of MCA Title 30, Chapter 10;
 - c. acquires pledged securities in the same manner and amount as required in MCA 7-6-202 and 7-6-213, for investments which are not guaranteed or for uninsured investments; and
 - d. provides each investment pool participant and associated county treasurer with a monthly report detailing:
 - i. investment and redemption dates;
 - ii. investment and redemption amount, by school district fund;
 - iii. fees charged for administering the investment pool;
 - iv. the amount of interest accrued, reinvested and distributed, by fund;
 - v. the balance of the district’s investments, by fund; and
 - vi. at fiscal year end, the amount of interest accrued as of June 30 and the fair value of the district’s share of pooled investments as of June 30 as prescribed by GASBS No. 31.
- (ARM 10.10.625(3))

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COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

UNIFIED INVESTMENT PROGRAM WITH OTHER LOCAL GOVERNMENTS – cont.

3. Suggested Audit Procedure:

- Obtain and review documentation to determine that the investment firm or entity contracted to administer the investment pool meets the above requirements and provides the required information on a timely basis.

4. Compliance Requirements:

- The school district shall reconcile the district's records of investment balances and interest income to the county treasurer's reports and the investment firm's reports each month. (ARM 10.10.625(4))
- When directed by a school district, a county treasurer shall invest the district's money within 3 days in an investment pool by issuing a treasurer's check, warrant, or wire transfer of funds to the State Board of Investments or investment firm administering the investment pool. When directing investments, the school district must provide written notification to the county treasurer stating the amount to invest and the fund making the investment. (MCA 20-9-212 and 213; ARM 10.10.625(5))
- A school district shall not purchase investments using district warrants. (ARM 10.10.625(5))
- The school district shall not pay operating expenses from an investment pool without first returning the funds to the county treasurer. Operating expenses include but are not limited to salaries, service or construction contracts, and supplies and equipment. (ARM 10.10.625(6)(b)) (**Note:** Fees charged for administration of the investment pool may be deducted directly from the investment pool. (ARM 10.10.625(3)(d))
- Each school district participating in an investment pool will monitor its cash balances maintained with the county treasurer and will promptly redeem investments to pay district warrants and bond and principal and interest in a timely manner. (ARM 10.10.625(6) & (7))

Suggested Audit Procedures:

- To verify that the school district is making the reconcilements with the county treasurer and investment firm monthly, as required by Administrative Rule, obtain copies of and review the school district's monthly reconciliations with the county treasurer's reports and with the investment firm's reports.
(**Note:** The county treasurer could maintain a formal listing or record of investments held by the firm or entity contracted to administer the investment pool from the reports received from the investment advisor. However, there is nothing specific in the statutes that would require the treasurer to do so.)

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COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

UNIFIED INVESTMENT PROGRAM WITH OTHER LOCAL GOVERNMENTS – cont.

4. Suggested Audit Procedures - continued:

- Based on inquiry of district financial personnel, a review of investment files, and a review of the treasurer's records, verify that the county treasurer has invested district moneys per written direction from the school district within 3 working days of the notification.
- Determine that the school district has not purchased investments using district warrants. All initial investments should be made by the county treasurer.
- Review monthly reports provided by the investment firm to determine that the school district has not paid any operating expenses directly from an investment pool. Determine that all distributions from the investment pool were made to the county treasurer.
- Determine if the school district has controls in place to monitor its cash balances with the county treasurer, and verify that investments are redeemed as necessary to pay all warrants and to service all debt in a timely manner.

30 HOUR NOTICE FOR CASH WITHDRAWAL

5. Compliance Requirement:

- School district clerks shall provide a minimum of 30 hours notice in advance of cash demands to meet payrolls, claims, and electronic transfers that are in excess of \$50,000. If a district clerk fails to provide the required 30-hour notice, the county treasurer shall assess a fee equal to any charges demanded by the state investment pool or other permissible investment manager for improperly noticed withdrawal of funds. (MCA 20-9-212(12))

Suggested Audit Procedure:

- If a school district clerk fails to provide the required 30-hour notice for cash demands, and if the state investment pool or other investment manager charges a fee for this improper notice for withdrawal of funds, verify that the county treasurer has assessed the school district an equal fee.

INVESTMENT ACCOUNTS

6. Compliance Requirements:

- The trustees of a school district may establish investment accounts and may temporarily transfer into the accounts all or a portion of any of its budgeted or nonbudgeted funds. (MCA 20-9-235; ARM 10.10.611)

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COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

INVESTMENT ACCOUNTS - continued

6. Compliance Requirements - continued:

- Before establishing investment accounts, a school district must obtain written documentation that the investment firm or entity being contracted to administer the investment accounts:
 - a. complies with MCA 20-9-204, Article VIII, section 13 of the Montana Constitution and is qualified and competent to provide investment services to school districts;
 - b. is either registered with or has filed notice with the state auditor;
 - c. acquires pledged securities in the same manner and amount as required in MCA 7-6-202 and 7-6-213 for investments which are not guaranteed or uninsured investments,
 - d. agrees to purchase only the types of investments allowed for schools by law;
 - e. provides the district with a monthly report detailing:
 - i. investment and redemption dates
 - ii. investment and redemption amounts, by school district fund;
 - iii. fees charged for administering the investment accounts;
 - iv. the amount of interest accrued, reinvested and distributed by fund;
 - v. the balance of the district's investments, by fund;
 - vi. for a spending investment account, a list of checks, if applicable, and a detailed report of electronic payments made; and
 - vii. at fiscal year-end, the amount of interest accrued as of June 30 and the fair value of the district's share of pooled investments as of June 30 as prescribed by GASBS 31.

(ARM 10.10.611)
- All elected officials, district employees, and investment firm employees with duties related to the investment accounts must be bonded. The district shall determine the amount of bonding required, based on the amount of assets handled and the opportunity for defalcation. The bond may either be for an individual or may be a blanket bond. (ARM 10.10.611)
- A non-spending investment account is an investment account from which monies are transferred back to the county treasurer to cover district warrants drawn on the district's fund. No payments can be made by the district from a non-spending investment account. The district must ensure that sufficient money is reverted to the school funds maintained by the county treasurer in sufficient time to pay all claims presented against the applicable funds. The district shall direct the investment firm to deposit redeemed investments and interest income to the credit of the specific district fund held by the county treasurer. (MCA 20-9-235; ARMs 10.10.610 & 10.10.615)

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COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

INVESTMENT ACCOUNTS - continued

6. Compliance Requirements - continued:

- A spending investment account is an investment account from which the district makes payments for district expenditures using electronic payments, either to vendors or to a subsidiary checking account used to issue checks from the investment accounts. District warrants are not written on a district fund for which a spending investment account has been established (i.e., warrants are only issued for funds maintained by the county treasurer.) Checks may be written on, or electronic payments may be made from, the account if:
 - a. the payments made from the accounts representing budgeted funds are in compliance with the budget adopted by the trustees;
 - b. the accounts are subject to the audit of district finances completed for compliance with MCA 2-7-503 and 20-9-213; and
 - c. the district complies with all accounting system requirements required by the superintendent of public instruction.
 (MCA 20-9-235; ARM 10.10.610 & .612)
- Because MCA 20-9-440 requires the county treasurer to make all payments due on school district bonds and special improvement districts, a spending investment account may not be established for the debt service fund. (ARM 10.10.612(2))
- A district shall pay the automated clearinghouse system charges for all automated clearinghouse transfers made by the office of public instruction to the district's accounts. (MCA 20-9-235) (**Note:** A school district may apply in writing to OPI to distribute any payments by direct electronic transfer of funds into an investment account. This will only occur if OPI has approved the request using criteria in ARM 10.10.615. (ARM 10.10.614))
- The trustees shall provide and enforce a system of internal controls to safeguard the district's money by providing the following procedural checks and balances:
 - a. The district shall perform monthly reconcilements of the district's investment records, including transfers to and from the investment accounts, cleared checks, and interest income, to the investment account statements.
 - b. A person other than the district employee responsible for payments by check or electronic transfer (i.e., another district employee, a county employee, a trustee, or a contracted accounting professional) shall review the monthly reconciliation to verify the validity of changes to account routing numbers, appropriate payees, proper sequence of check numbers, and authorization of expenditures by the appropriate school district official.

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COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

INVESTMENT ACCOUNTS - continued

6. Compliance Requirements - continued:

- c. No single person may control an accounting transaction from beginning to end, meaning the same person shall not be responsible for initiating a payment or transfer, authorizing the payment or transfer, recording of accounting transactions for payments and transfers, and reconcilements.
(ARM 10.10.615)
- Other controls established by ARM 10.10.615 are as follows:
 - a. When directing investments, the school district shall provide written notification to the county treasurer stating the amount to deposit and the fund making the investment. The county treasurer shall deposit the district's money directly into the investment account via a treasurer's check or wire transfer. A county treasurer may not direct payments to a subsidiary checking account.
 - b. A school district shall not purchase investments using district warrants.
 - c. The school district shall require the investment firm, when transferring money to funds maintained by the county treasurer, to inform the county treasurer in writing as to which fund the proceeds should be deposited. Interest earnings, redeemed principal, and losses should be reported separately, and by fund.
 - d. Before transferring money from one fund to another fund of the district, trustees shall return the money from the investment account to the fund held by the county treasurer. Trustees may then direct the county treasurer to transfer the money to the receiving fund.

Suggested Audit Procedures:

- Determine that the school district has obtained written documentation from the investment firm or entity being contracted and that the written documentation includes all of the elements required by ARM 10.10.611.
- Verify that all elected officials, district employees, and investment firm employees with duties related to the investment accounts are bonded.
- For non-spending investment accounts, verify that no payments were made by the district from the investment account. Through inquiry and review of the investment records, verify that the district directed the investment firm to deposit redeemed investments and interest income to the appropriate funds in sufficient time to pay all claims presented.
- Verify that a spending investment account was not established for the debt service fund.

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COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

INVESTMENT ACCOUNTS - continued

6. Suggested Audit Procedures - continued:

- For spending investment accounts, verify that district warrants are not written on district funds, but that the district instead makes payments for district expenditures using electronic payments, either to vendors or to a subsidiary checking account used to issue checks from the investment accounts.
- For spending investment accounts, apply appropriate audit procedures to transactions of the spending investment accounts and subsidiary checking accounts, to ensure compliance with all applicable statutes, including budgetary limitations.
- Determine that a school district's investment records are reconciled to the county treasurer's reports and the investment firm's reports each month, and that there is an independent review of this monthly reconciliation.
- Verify that internal control procedures exist to prevent one person from controlling a transaction from beginning to end.
- Determine that the school district has not established investment accounts using district warrants. All initial investments should be made by the county treasurer.
- Verify that all other controls provided by ARM 10.10.615, as discussed above, were in effect.

INTEREST ALLOCATION

7. Compliance Requirements:

- All interest collected on the deposits or investments of school district funds must be credited to the fund from which the money was withdrawn. An exception to this is that interest earned on the investment of bond proceeds must be credited to the debt service fund or the building fund, at the discretion of the board of trustees. (MCA 20-9-213(4))
- Unified Investment Program - If the school district participates in an investment pool, other than a countywide investment pool, it must direct the investment firm or the State Board of Investments to deposit redeemed investments and interest income with the county treasurer, to the credit of the specific and appropriate school district fund. The school district shall require that the investment firm or the State Board of Investments inform the county treasurer in writing stating the funds to which the proceeds should be deposited and the amount of the interest earnings and principal contained in the proceeds. (ARM 10.10.625(6))

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COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

INTEREST ALLOCATION - continued

7. Compliance Requirements - continued:

- Investment Accounts - School districts maintaining investment accounts shall ensure that the principal and interest is allocated to the budgeted or non budgeted fund from which the deposit was originally made. (**Note:** All interest earned on the district's general fund deposits must be allocated for district property tax reduction as required by MCA 20-9-141). (MCA 20-9-235)

Suggested Audit Procedures:

- Obtain selected interest remittance advices or reports and determine the distribution of interest revenue. Verify that interest revenue was distributed to the various district funds per State law. If the school district invests its money through the county investment pool, review the county treasurer's policy for distribution of interest revenue to the various district funds. Test selected months' interest revenue entries on the county's general ledger (for the school district funds) to determine that the distribution policy is being consistently applied to the district's funds.
- If a school district participates in an investment program or pool, determine that the investment firm or the State Board of Investments has informed the county treasurer in writing regarding the required distribution of interest earnings and principal of proceeds remitted to the treasurer.
- For districts that maintain investment accounts, determine that principal and interest is allocated to the budgeted or non budgeted fund from which the deposit was originally made.

EXTRACURRICULAR FUND MONEY

8. Compliance Requirements:

- All extracurricular money must be deposited and expended by check from a bank account maintained for the extracurricular fund. (MCA 20-9-504(1)) Alternatively, extracurricular money may be maintained in an account held in the custody of the county treasurer, as authorized in ARM 10.10.304.
- It is not a proper purpose of extracurricular activities to accumulate funds for investment. However, in some cases, such as when a class accumulates money to be expended by that class in a subsequent year for a trip or some other group activity, an investment of funds may be appropriate. In such a case, the interest from the investments should be distributed on a pro rata basis to each of the funds which contributed to the purchase of the investment. (A.G.O. No. 44, Volume 28)

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COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

EXTRACURRICULAR FUND MONEY - continued

8. Suggested Audit Procedures:

- Verify that all extracurricular money is maintained in a checking account or in a fund held by the county treasurer. If some of the extracurricular money has been invested, review the funds invested to determine if the investments are appropriate in light of A.G.O. No. 44, Vol. 28.
- Trace selected interest remittance advices to the distribution of interest revenue. Verify that the interest was distributed on a pro rata basis to each of the funds which contributed to the investment.

MONTHLY RECONCILIATIONS

9. Compliance Requirement:

- Every month, each school district shall reconcile ending cash, investments (including investment accounts), cash receipts and cash disbursements reported by the county treasurer, and by an investment firm if applicable, with the district's records for all funds. Any differences shall be documented and adjustments to the school district's, investment pool's, or county treasurer's records made as necessary. (ARM 10.10.501, 10.10.615, & 10.10.625)

Suggested Audit Procedures:

- Obtain and review the district clerk's monthly reconciliation worksheets for ending cash, investments, cash receipts and disbursements
- If there are reconciliation differences, determine whether appropriate adjustments were made, and that the adjustments were adequately documented.

INTEREST RATES ON DEPOSITS OF PUBLIC MONEY

10. Compliance Requirement:

(Note: The following statute does not specifically refer to school districts. It appears, however, that since school finance laws refer to the cash and investment laws that govern a county, these same laws would be applicable to a school district)

- The rate of interest paid to the school district must be the same as that paid on money from private sources on the same terms. Refusal of any bank, building and loan association, savings and loan association, or credit union to pay that same interest rate shall constitute a waiver of that institution's right to participate in the deposit of public funds. (MCA 7-6-203)

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COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

INTEREST RATES ON DEPOSITS OF PUBLIC MONEY – continued:

Suggested Audit Procedure:

- If, based on the auditor's knowledge and experience, it appears that the interest rate paid on school district money is lower than the interest rate paid on money from private sources on the same terms, the matter should be investigated further.

PLEDGED SECURITIES

11. Compliance Requirement:

(**Note:** The following statute does not specifically refer to school districts. It appears, however, that since school finance laws refer to the cash and investment laws that govern a county, these same laws would be applicable to a school district)

- The local governing body may require security only for that portion of the deposits in financial institutions that is not guaranteed or insured according to law. The local government can require security to the extent of:
 - a. 50% of the deposits if the financial institution has a net worth to total assets ratio of 6% or more; or
 - b. 100% of the deposits if the financial institution has a net worth to total assets ratio of less than 6%.
 (MCA 7-6-207)

Suggested Audit Procedure:

- If the school district has deposits in a financial institution that are not guaranteed or insured according to law, obtain the published statement of condition for the financial institution to determine the financial institution's net worth to total assets ratio. Determine that the amount of securities pledged by the financial institution to protect those deposits that are not guaranteed or insured according to law is at least equal to the amounts required by state law, as described above.

12. Compliance Requirement:

- Pledged securities for uninsured balances, as discussed above, must consist of those specified in MCA Title 17, Chapter 6, Part 1. (MCA 20-9-235(8))

Suggested Audit Procedure:

- Determine the type of securities pledged to protect the school district's uninsured deposits and verify that they comply with the requirements discussed above.